

Propane Market Pulse



Planning through the unpredictable

by Adam DeLawyer,
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After a warm and much drier-than-average fall season that weakened demand and lowered prices, it may be easy to imagine smooth sailing ahead and less pressure facing this winter's propane supply.

But, if I can leave you with one clear message today, it's this: When it comes to supply planning, don't let a false sense of security catch you and your customers off guard.

Despite recent market conditions, there are still plenty of factors that have the power to shape demand and impact the flow of your supply when you need it most.

We may have just seen low demand and prices, but the market also just experienced a new record week in U.S. propane exports and that overseas demand is expected to remain strong in the months ahead.

And we know cold weather is in our future, which will bring a surge in domestic demand that not only drives higher prices but also amplifies the logistical supply chain challenges that continue to disrupt our industry. Add a shortage of licensed drivers to the mix, and those without a solid supply strategy in place are sure to experience delays.

Domestic supply will be available this winter, but the logistics involved in delivering that supply to you could mean lengthy lead times. Having walked in your shoes as the former leader of a propane retailer, the question I'd be asking from your seat is "How can I keep supply closer to home without reliable support from extra trucks?"

The good news is CHS is here and ready to help. Our propane experts can help contract for your needs and lock in a price before the next market spike. In this issue, you'll find expert market intel, safety tips and a look at the new resources we can provide to keep you and your customers a step ahead.

Propane inventories loosen but exports keep pressure on markets

In fall of 2021, U.S. propane inventories were at the lowest levels seen in the previous five years, ending the year with just 76 million barrels. Weak domestic demand conditions from fall through early January enabled inventories to moderate, preventing widespread supply challenges during peak demand season. But 2022 has brought steadily climbing inventories, notes Ben Lyden, CHS director of trading and risk. "At the end of September of this year, U.S. inventories were at 84.3 million barrels, which is almost 8 million barrels more than one year ago. It's actually been a bit of a surprise to see how rapidly inventories have built."



The outlook for U.S. propane markets offers a bit more optimism heading into the winter season than buyers faced one year ago.

That's due, in part, to reduced domestic demand, he says. "Last year was an average winter. The long-range forecast through year-end 2022 calls for above-normal temperatures in most of the country, and if that would occur, it would help to further build domestic inventories." Those forecasts can change quickly and is something to monitor moving forward.

With drier-than-average weather conditions across many parts of the Corn Belt this past season, propane demand for grain drying is expected to be below average, adds Lyden. "We're not likely to have that fall demand surge."

Inventory levels in all but one U.S. region are now above the five-year average, he says. "The Upper Midwest is

still at below-average inventory levels due to a July explosion and fire at a Midwest gas plant that reduced the number of gallons in the region, as well as more exports leaving Canada reducing supply as a result, inventories could be a little tighter there going into winter."

Production up, exports up

U.S. propane production has been on a steady increase over the past decade, nearly doubling from 1.25 million barrels per day (bpd) in 2012 to 2.4 million bpd this year. The recent investments in U.S. propane infrastructure, including new pipelines and export terminals, provides added capacity to move much more product than was possible four years ago, says Lyden.

Additional pipelines from North Dakota's Bakken oil and gas fields south to the Conway underground storage facility in Kansas and on to the Mont Belvieu facilities in Texas have made it easier to move more propane to the Gulf Coast for export. The current U.S. infrastructure has the capacity to export up to 75% of the nation's domestic production. In 2021, exports averaged 52% of total U.S. production.

"This year exports have continued to be robust," Lyden says. "We've seen exports spike from an average of 1.3 million barrels per day to a record high of 1.7 million barrels this summer. That's despite economic downturns in major global markets including several Asian countries."

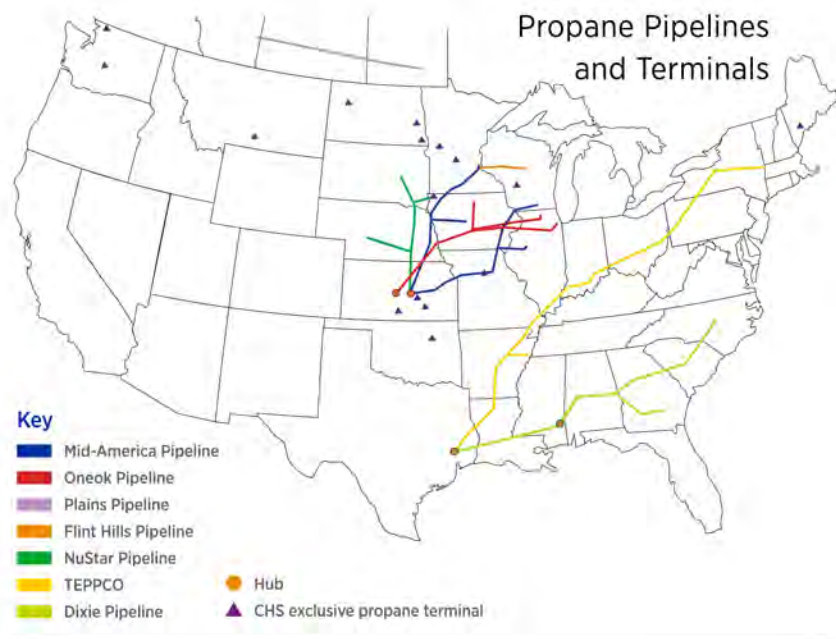
Increased plastics use has triggered exponential growth in propane demand, he adds. "The need for plastic packaging grew during the pandemic, so demand spiked from petrochemical producers who use resin from natural gas products like propane to make plastics. China is expected to open more petrochemical plants in the next few years."

While there are plenty of global unknowns that could impact export demand in the year ahead, including inflation, developments in the Russia/Ukraine war and Europe's natural gas shortages, Lyden says most indicators point to continued strength in export markets moving forward.

Positioned to compete

No one can predict the full effects of so many global and domestic factors on the propane market but building a supply plan can help you hedge against both price and supply risk.

"Working with propane experts to plan ahead and strategize about buying options and additional tank storage can provide protection against volatile supply and price swings," says Mark Porth, CHS senior account manager.



"If you haven't already done so, have a serious conversation with your wholesaler about monthly nominations for this winter," he recommends. "We take that information to the supplier to try and lock in those volumes."

Where possible, consider using multiple terminals, including pipeline, rail and gas plants, he says. "Planning ahead is key. Railcars require 45 to 60 days of lead time. And truck capacity is likely to be a major limiting factor again this season, as the truck driver shortage continues to impact transportation across the country."

"Identifying multiple carrier options, from several terminals will help build flexibility into your supply plan," he adds. "Maintain good relationships with carriers and include transportation considerations in your plan. The gallons could be there at the terminal but if there's no truck to haul them, it won't matter."

Additional storage can also reduce supply risk during crunch times and allow you to lock in low prices at optimal buying times, says Porth. "Quite a few of my accounts in the southern Plains and northern Delta have added storage in the past year and already feel more secure because of it."

Call your CHS Propane Account Manager who can help with supply planning and propane needs or CHS Energy Equipment for assistance in determining how much storage is enough.

Get carriers carded ahead of the busy season

Help yourself and the industry prepare this season by having your carrier schedule terminal driver training before the winter season arrives. This process ensures drivers are qualified to load at the necessary terminals and helps avoid the impact on the terminal and operators if training occurs during the busy time of the year.

Please discuss with your CHS Propane Account Manager which terminals your carrier should be prepared to use this season, including your second and third options.

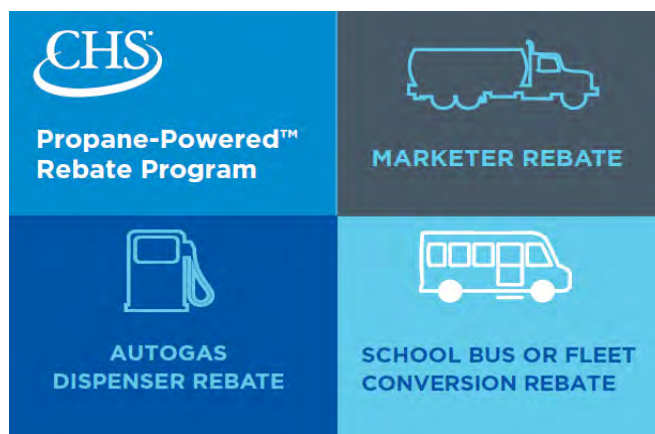


Propane-Powered™ Rebate Program sunsetting August 2024

Over the last four years, CHS has invested millions into helping both you and the propane industry grow gallons through the Propane-Powered™ Rebate program. The momentum for the program continues to build with more than one hundred autogas dispenser installations by 84 marketers across fourteen states. The Propane-Powered Rebate Program helps you establish propane-powered technologies with your customers to remain competitive with other alternative fuels. Although the program will be sunset, you still have time to use your Propane-Powered Rebate dollars between now through August 31, 2024.

A propane-powered project can have a long lead time, so make sure you start planning your propane-powered project now and take advantage of your rebate dollars.

For more information on how you can take advantage of the Propane Powered Rebate Program, contact your CHS Account Manager.



More marketing resources to help grow your propane gallons



You want to grow your propane business, and CHS Propane wants to help. Coming in 2023 are upgraded tools and marketing solutions that tap into the latest market research and digital technologies to better identify and hone in on target markets to help you serve your customers to the fullest and increase your ROI.

The updated CHS Propane Program, for Cenex®-branded retailers buying 100% of their gallons from CHS, offers a top-of-the-line package of marketing tools, services, and ready-to-use advertising materials. Our new Gallon Grower Program, for retailers committing purchase at least 70% of their gallons from CHS, delivers a premium set of marketing tools and customized services including consulting expertise, online market analysis, industry research, access to ad-share dollars and much more.

Watch for full details in early 2023!



Keep grain drying safety top of mind for your customers



Photo courtesy of PERC

As harvest wraps up, farmer attention shifts more to grain storage and conditioning. "Dryer safety is important but sometimes overlooked in the rush to move bushels. But reminding growers of safety best practices can help avoid accidents or operational setbacks", says Scott Pearson, safety expert and director of operations for CHS Propane.

"Being proactive is the best way to avoid potential safety problems, and grain dryer maintenance is an important first step," he says. "Grain dryers are real workhorses on the farm, but many were installed up to 30 to 40 years ago and like any piece of equipment, they require regular inspections and tune-ups."

Propane retailers should advise farmers to check the following:

- Conduct regular visual inspections of the dryer's exterior and interior.
- When entering a bin follow proper safety protocols and wear appropriate personal protective equipment (PPE).
- For larger dryers with a vaporizer, strongly encourage farmers to work with their propane professional partner for proper maintenance.
- Ensure propane tank is a properly distanced from the dryer.
- Follow all codes – NFPA 58.
- Conduct preharvest cleaning and burner tuning.

It's always a good idea to review general safety issues with dryer operators, and to make sure they have a safety plan and share it with all farm employees, says Pearson. "They need to understand what could go wrong and how to detect potential problems."

Key safety tips include:

- Familiarize yourself with emergency dryer shutoffs.
- Never work on an energized system – make sure all power is disconnected or locked out.
- Know what propane odorant smells like and, if a leak is suspected, evacuate the area and call the local fire department.
- Encourage farmers to ask for your help with any propane or dryer maintenance questions.

Pearson recommends sharing with customers this short, informative video on grain dryer maintenance that covers many of these key points.

Access the video using this QR code and follow the instructions below.

1.) Open your phone's camera

2.) Place camera over QR code



Help your customers reduce supply risk with storage for pennies

The CHS Storage for Pennies program offers propane dealers affordable access to the increased storage capacity and the latest autogas dispensing equipment to meet the changing demands of their operations.

How It Works

With the CHS Storage for Pennies program, approved customers can lease-to-own new bulk propane storage and autogas dispensers without the burden of costly upfront expenses.

CHS will help you choose equipment with features customized to fit your unique operation. Our experts will assist with contractor evaluation and selection. The selected contractors will oversee financing, permitting, construction and installation.

CHS will oversee financing for the Storage for Pennies program. The annual lease payment is conveniently divided and included in the price of propane purchased from CHS – only pennies per gallon. CHS also offers flexible lease-to-own terms ranging from three to 10 years.

Benefits

- Reduce debt load by preserving working capital
- Alleviate supply interruptions with increased storage capacity
- Gain potential tax benefits
- Take advantage of savings by filling during off-peak demand

To qualify for the CHS Storage for Pennies program, equipment must be purchased through CHS Energy Equipment. For more details call 800-852-8186, option 1.

CALCULATE YOUR RETURN ON INVESTMENT

Use the ROI calculator on MyCHS.com and see how the CHS Storage for Pennies program will contribute to your bottom line. Contact CHS Energy Equipment at MyCHS.com to get started today.



CHS Storage for Pennies annual cost example based on a typical stand-alone 30,000-gallon bulk plant build of \$135,000*

Total Annual Gallons	2,500,000	
Total Project Cost	\$135,000	
Residual Payment	15% Residual Amount	20% Residual Amount
	\$20,250	\$27,000
Terms in Years	Cent Per Gallon Rate	
5	\$0.0109	\$0.0105
7	\$0.0083	\$0.0080
10	\$0.0064	\$0.0061

*Final payment to purchase tank at end of the lease term.



The CHS Storage for Pennies program has been expanded to offer customers affordable access to the latest autogas equipment.